A NEW DIMENSION
IN ANNUAL REPORT
COMMUNICATION

Neonex International 1971 Annual Report

NEONEX MARKETS

FOOD
CONSUMER GOODS
COMMUNICATIONS
SHELTER
LEISURE

Neonex International is a major industrial corporation serving the consumer markets, with manufacturing plants and sales offices located across the country.

THE NEONEX GUIDE TO GROWTH

We have made a particular effort in the design of this year's Annual Report to more effectively communicate with the reader through the use of non-technical terms, simpler descriptions and concise facts.

To be better informed on the Company's financial progress check the Neonex guide panels that appear on the following pages. These "guide panels" contain a brief simplified explanation relating to the material on each respective page. A layman's glossary of selected accounting terms has been included to give a fresh insight into the financial statements and notes.

We hope that this added new dimension in our Annual Report communication will help you to better understand the Company's achievements and growth in 1971.

Wilfred N. Ray,
Director Corporate Communications.

COMPARATIVE HIGHLIGHTS

Key data which provides an overview of current operations compared to last year.

	1971	1970	% Increase
For the year			
Sales	$146,200,000	128,200,000	14
Earnings before extraordinary loss	3,000,000	1,900,000	63
Net earnings	2,800,000	(6,300,000)	
Capital expenditures	2,600,000	4,300,000	(39)
Per common share			
Earnings before extraordinary loss	43¢	27¢	59
Net earnings	40¢	(91¢)	
Dividends paid	5¢	5¢	
Year end position			
Total assets	68,800,000	72,000,000	(4)
Working capital	20,300,000	15,000,000	36
Long-term debt	7,700,000	10,600,000	(27)
Convertible notes	15,000,000	15,000,000	
Shareholders' equity	23,700,000	20,200,000	17
Employees	3,185	3,765	(15)
Shareholders	5,853	5,750	2

CONTENTS

COVER

Consumers on every street corner in Canada are potential customers for Neonex products sold from coast to coast.

BOARD OF DIRECTORS

Harry B. Dunbar,
Vice-President Corporate Development,
Neonex International Ltd.,
Vancouver, British Columbia

Russell A. Dunn,
Consultant to Forest Products Industry,
Vancouver, British Columbia

M. Donald Easton,
Partner,
Harper, Grey, Easton & Company,
Vancouver, British Columbia

Lawrence B. Eberhardt,
Vice-President,
Neonex International Ltd.,
Vancouver, British Columbia

Robert W. Halliday,
Chairman of the Board,
Wheelabrator-Frye Inc.,
New York, New York

Mark N. Kaplan,
Senior Partner,
Burnham and Company,
New York, New York

Edward Lawrence,
Vice-President Credit,
The Toronto Dominion Bank,
Toronto, Ontario

C. Stuart Mitton,
President,
Overwaitea Limited,
Greater Vancouver, British Columbia

James A. Pattison,
Chairman of the Board and President,
Neonex International Ltd.,
Vancouver, British Columbia

John M. Thompson,
Chairman of the Board,
Crush International Ltd.,
Toronto, Ontario

SENIOR OFFICERS

Harry B. Dunbar,
Vice-President Corporate Development

Lawrence B. Eberhardt,
Group Vice-President

Guy J. Lewall,
Vice-President and Secretary-Treasurer

Griffith M. Marshall,
Senior Vice-President

James A. Pattison,
Chairman of the Board and President

Fred W. Vanstone,
Vice-President Finance

Stanley F. Whittle,
Group Vice-President

COMMITTEES OF THE BOARD

Finance Committee:
James A. Pattison, *Chairman*
Robert W. Halliday
John M. Thompson

Audit Committee:
Robert W. Halliday, *Chairman*
Russell A. Dunn
Harry B. Dunbar

Compensation Committee:
John M. Thompson, *Chairman*
Robert W. Halliday

BANKERS

The Toronto Dominion Bank,
Vancouver, British Columbia

TRANSFER AGENTS AND REGISTRARS

The Canada Trust Company,
Vancouver, British Columbia;
Calgary, Alberta; and Toronto, Ontario

Bankers Trust Company,
New York, New York

AUDITORS

Peat, Marwick, Mitchell & Co.,
Chartered Accountants,
900 West Hastings Street,
Vancouver, British Columbia

EXECUTIVE OFFICES

1055 West Hastings Street,
Vancouver 1, British Columbia,
Telephone 688-6764, Area Code 604,
Telex No. 04-507616

STOCK LISTINGS

Toronto and Vancouver Stock Exchanges,
Over-the-Counter Market, New York

QUOTE SYMBOLS

Toronto	NEOT
Vancouver	NEOV
NASDAQ	NEONF

Valuation Day Price of the Company's Common Shares
on December 22, 1971, $3.70, as determined
by the Department of National Revenue.

HISTORICAL SUMMARY

Significant financial and statistical data indicates trends over the past five years in the Company's performance and financial strength.

HISTORICAL SUMMARY *(dollars in thousands except amounts per share)*

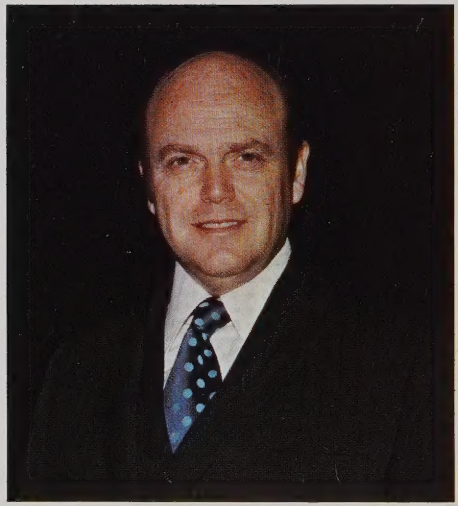
	1971	1970	1969	1968	1967
For the year					
Sales	**$146,200**	128,200	120,800	104,000	87,400
Earnings from continuing operations	**2,900**	2,800	3,700	3,100	2,600
Earnings before extraordinary items	**3,000**	1,900	4,600	3,900	3,200
Net earnings	**2,800**	(6,300)	4,600	3,900	3,400
Cash flow	**5,200**	400	7,100	5,600	5,300
Dividends paid	**300**	300	300	200	400
Return on equity	**14%**	8%	19%	19%	18%
Capital expenditures	**2,600**	4,300	4,800	2,800	*
Per common share					
Earnings before extraordinary items —					
basic	**.43**	.27	.68	.59	.48
fully diluted	**.42**	.27	.61	.57	.47
Net earnings —					
basic	**.40**	(.91)	.68	.59	.51
fully diluted	**.39**	(.91)	.61	.57	.49
Cash flow	**.74**	.06	1.05	.83	.80
Dividends paid	**.05**	.05	.05	.05	.20
Equity	**3.29**	2.92	3.98	3.38	2.86
Year end position					
Total assets	**68,800**	72,000	85,800	50,000	43,400
Working capital	**20,300**	15,000	18,100	11,000	9,700
Current ratio	**2.1**	1.5	1.6	1.4	1.5
Shareholders' equity	**23,700**	20,200	26,900	22,500	18,900
Employees	**3,185**	3,765	3,936	3,131	*
Shareholders	**5,853**	5,750	4,050	2,075	2,432
Common shares outstanding (thousands)	**7,195**	6,936	6,754	5,996	2,229

**Not available.*

Note: The above amounts have been restated for poolings of interests, discontinued operations and stock split.

TO OUR SHAREHOLDERS

The President's report includes brief highlights of the Company's results for 1971 and objectives for the future.



The Company made several important moves during the first half of 1971 to strengthen its financial position, including divesting itself of non-profitable and marginal operations. As a result:

- sales from continuing operations rose 14% to $146 million.
- ordinary earnings increased 63% to $3 million.
- ordinary earnings per share moved up to 43¢ compared with 27¢ during the previous year.
- divisional earnings contribution increased 19% over last year.
- working capital rose 36% to $20.3 million.
- current bank debt was retired at the end of December, 1971.

Expansion

Capital expenditures were $2.6 million in 1971. Our planned capital program for 1972 is $5.5 million, with the principal expenditures being allocated to the Food and Consumer Goods Divisions. It is anticipated 15 new outlets will be built in these two growth areas of the Company.

First Move Into U.S.

Our newest leisure manufacturing plant is at McMinnville, Oregon, 35 miles from Portland, where travel trailers are being built for sale in the U.S. Pacific Northwest. This is the Company's first

step into the United States which will also permit us to supply competitive products to our British Columbia market.

1972 Forecast

The Canadian economy strengthened during the second half of 1971. We feel confident that 1972 will be a good year and that consumer spending will continue its general upward trend.

Based on our plans for 1972, we are optimistic that the Company will improve its position in the markets which it serves and will record increased sales and earnings.

Corporative Executives

Recent corporate executive appointments will serve to strengthen the organization. Griffith M. Marshall becomes Senior Vice-President. Since 1968 he has been Vice-President of Finance and Administration. Fred W. Vanstone is appointed Vice-President Finance. He formerly was Deputy General Manager of the Bank of British Columbia. Harry B. Dunbar assumes the position of Vice-President Corporate Development. For the past four years he has been Assistant-to-the-President.

Objectives

The past two years have been a time of consolidation for the Company following a period of rapid growth. The results have seen Neonex strengthen its financial position and consolidate its activities in five growth markets:

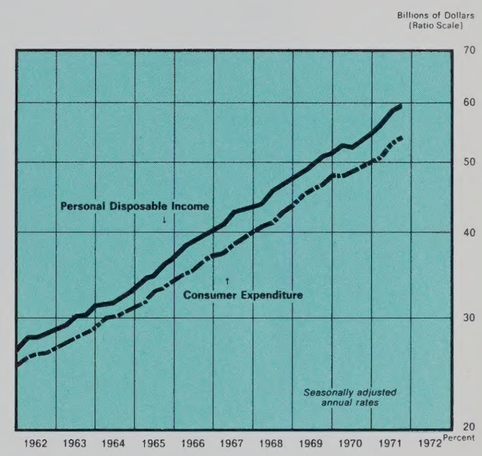
FOOD
CONSUMER GOODS
COMMUNICATIONS
SHELTER
LEISURE

We will strive to improve performance through the following objectives:

- to concentrate on a strong internal growth program through increased penetration of our existing markets with more and newer facilities.
- to continue to direct our efforts towards the personal disposable income segment of the economy where we believe the highest growth potential to be.

The past year has demonstrated the fundamental strength and earning power of the Company. We are firmly committed to serve the consumer markets and to participate in their future growth.

James A. Pattison,
Chairman and President.



Source: Statistics Canada

CORPORATE OFFICERS AND DIVISIONAL PRESIDENTS IN ACTION

These men are responsible for the leadership and growth of the Company and its operating Divisions.

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1. C. Stuart Mitton, *President of Overwaitea*.
2. John B. Austin, *President of Neon Products*.
3. Neonex Senior Officers in discussion are: *(left to right)* Harry B. Dunbar, Griffith M. Marshall, Fred W. Vanstone, Stanley F. Whittle, Guy J. Lewall and James A. Pattison.
4. Stanley F. Whittle, *Group Vice-President*.
5. Fred W. Vanstone, *(left)* and Harry B. Dunbar, Officers recently appointed.

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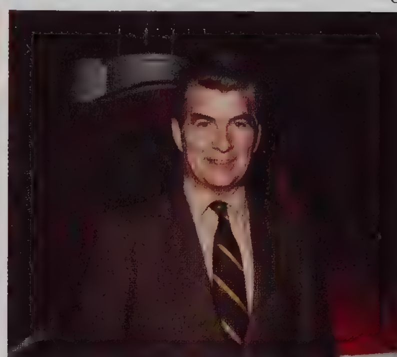

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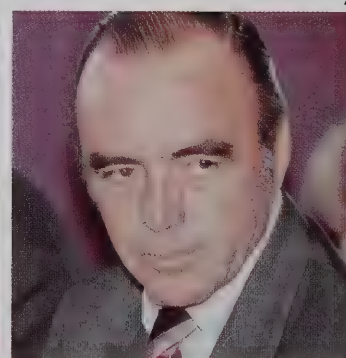

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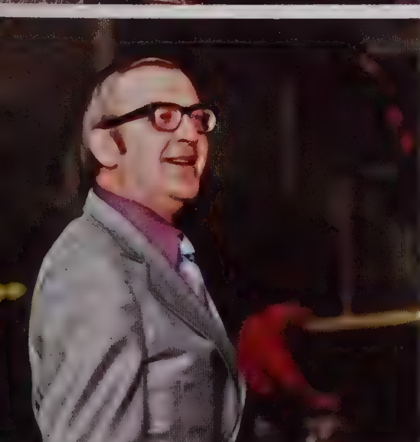


6. S. Rex Kaufman, *President of Associated Helicopters*.
7. Lawrence B. Eberhardt, *Vice-President*.
8. Ron M. Meredith, *President of ANC*.
9. George V. Hague, *President of Northern Paint*.
10. Dan E. Johnsen, *President of Neonex Housing Industries*.

FINANCIAL REVIEW

A graphical and written synopsis of key financial data.

To make this year's Annual Report more meaningful to our shareholders and to facilitate interpretation of our financial statements, we have included for the first time a summary of major accounting policies (page 28) and non-technical definitions of accounting terms (page 22). We have also rounded all dollar amounts to the nearest $100,000.

The historical financial data and charts include the operations of companies acquired as poolings of interests. All amounts related to businesses which the Company no longer operates have been segregated in the financial statements under the caption "discontinued operations". This presentation emphasizes the internal growth of the Company's continuing operations and provides a meaningful comparison with previous years.

Economic Climate

There is an air of cautious optimism relative to the economic climate in Canada. A number of critical issues still cloud the picture such as high unemployment, failure to resolve balance of trade problems with the United States, lack of stated policy on foreign ownership, pending competition legislation and major labour contracts up for negotiations. The Bank of Canada, on the other hand, has stated its policy "to encourage sustained economic expansion and a reduction of unemployment". Despite these uncertainties, the pending election in the United States and the probability that the Canadian electorate also will go to the polls in 1972, increase the likelihood of a strong economy even at the expense of longer-term problems of inflation.

Sales and Earnings

Sales for the year from continuing operations were $146 million, up 14% from $128 million last year. Earnings before an extraordinary loss were $3 million or 43¢ per share, up 63% from the $1.9 million earnings or 27¢ per share in 1970.

The Company recorded an extraordinary loss of $200,000 or 3¢ per share in 1971 compared with a loss of $8.2 million or $1.18 per share last year.

Continuing Operations

Earnings from continuing operations were $2.9 million, up $100,000 from 1970. The cost of carrying the investment in Maple Leaf Mills Limited was charged against 1971 ordinary earnings but the corresponding cost was included in the extraordinary loss in 1970.

The percentage of earnings to sales was also adversely affected by the large proportion of the sales increase attributable to the Food Division which traditionally realizes margins which are below the average. Other important factors were increasing wage costs and the continuing general pressure on prices and margins.

Discontinued Operations

During the year the Company sold substantially all of the shares and business assets of its surface transportation and floorcovering companies and other minor businesses. These operations did not meet the Company's long term investment criteria. The operating results of these businesses in 1971 appear as a single line on the statement of earnings. To provide meaningful comparisons, the financial statements of previous years have been reclassified with all appropriate amounts segregated under the caption "discontinued operations".

Financial Position

The generation of funds from operations and from the disposal of discontinued businesses permitted the Company to improve significantly its financial position. Working capital has increased to $20.3 million, up 36% from a year ago. Long-term debt of $7.7 million represents 15% of total capitalization at year-end, compared with $10.6 million and 22% respectively at the end of 1970.

Divisional Operations

The divisional grouping of the Company's continuing operations has been

modified because of disposals during 1971. The principal operations of each of the five present divisions are shown on page 32 of this Report and all historical financial data have been reclassified where appropriate.

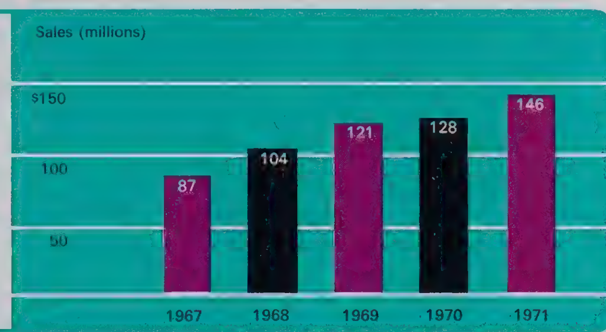
The divisional sales analysis for the past five years shows little change in the relative contributions to consolidated sales. The Leisure Division has gradually increased its share and this trend is likely to continue.

The relative contributions of divisions to consolidated earnings over the years fluctuate considerably depending on general economic conditions and competitive factors each year in the industries concerned. Earnings contributions are before allocations of corporate costs and before extraordinary items and minority interest.

Each division of the Company is reviewed later in this Report. The performance of each division is supported by key financial data and illustrated by charts showing the trends in both sales and earnings.

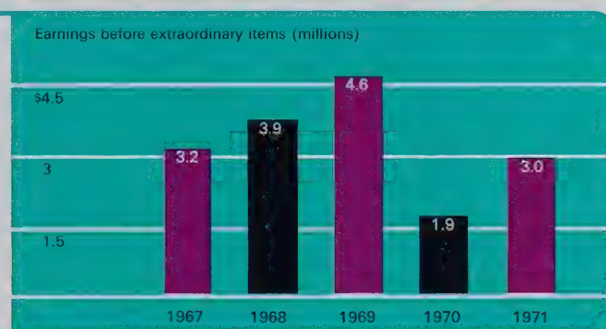
SALES

Sales of continuing operations in 1971 were up $18 million or 14% over 1970. Of the total increase, $10 million is attributable to the Food Division. Sales of discontinued operations have been excluded.



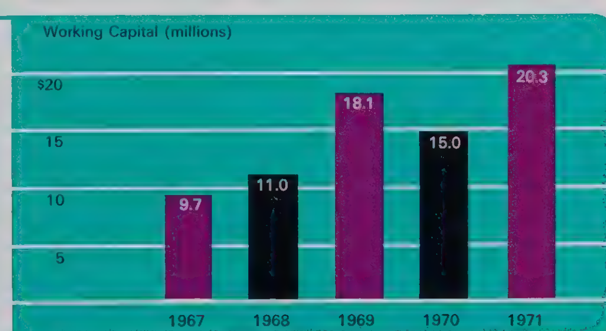
EARNINGS BEFORE EXTRAORDINARY ITEMS

Earnings before extraordinary items were $3.0 million in 1971 compared with $1.9 million in the preceding year. These amounts include earnings of discontinued operations of $100,000 in 1971 compared with a loss of $900,000 in 1970.



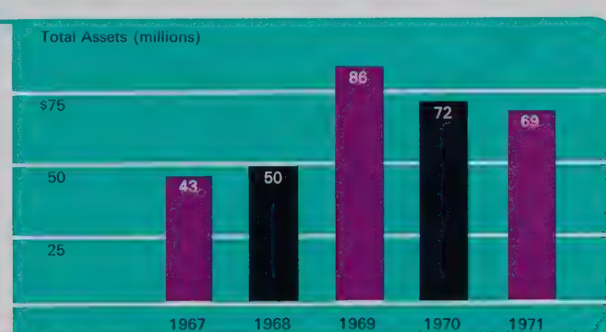
WORKING CAPITAL

Working capital was $20.3 million at year end compared to $15.0 million in 1970. Current assets were $38 million or 2.1 times the current liabilities compared to 1.5 last year.



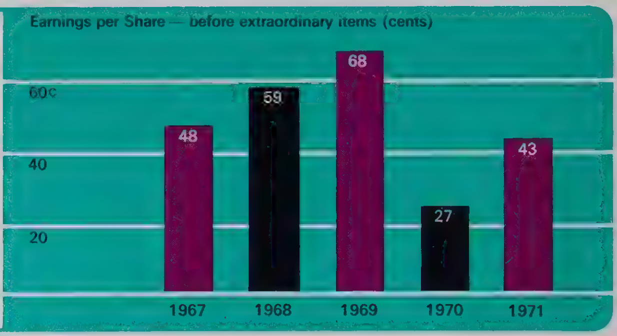
TOTAL ASSETS

Total assets were $69 million at the end of 1971 compared with $72 million the previous year. The drop is attributable to a reduction in total debt.



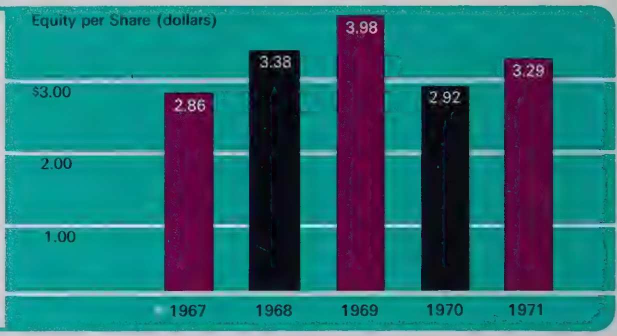
EARNINGS PER SHARE

Earnings per share before extraordinary items were 43¢ in 1971 compared with 27¢ in 1970. The elimination of non-profitable operations accounted for the major portion of this increase.



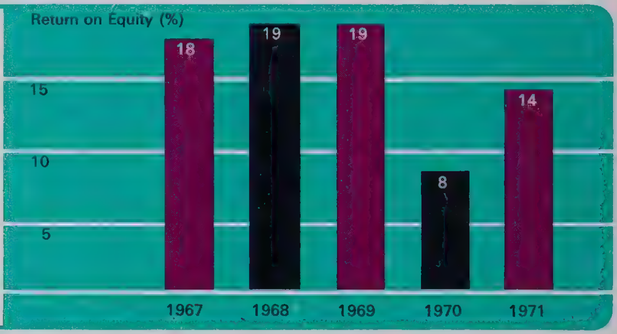
EQUITY PER SHARE

Equity per share rose to $3.29 from $2.92 in 1970. There were 258,500 shares issued during 1971 under the share purchase plan at an average price of $3.83 per share.



RETURN ON EQUITY

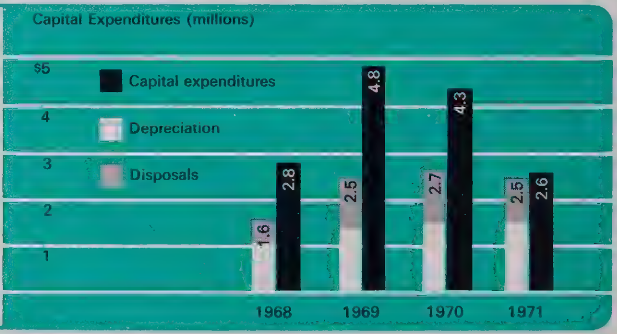
Net earnings before extraordinary items expressed as a percentage of shareholders' equity, increased to 14% in 1971 from 8% in 1970.



CAPITAL EXPENDITURES

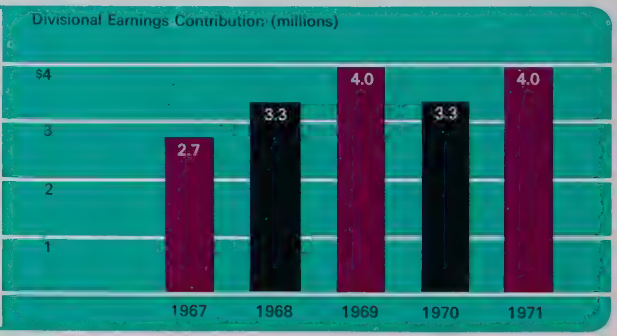
Capital expenditures of continuing operations amounted to $2.6 million during 1971. Asset retirements and depreciation charged against continuing operations amounted to $2.5 million of the funds required. The corresponding expenditures in 1970 were $4.3 million, with retirements and depreciation amounting to $2.7 million.

The principal expenditures this year were store additions and renovations in the Food Division.



DIVISIONAL EARNINGS CONTRIBUTION

The divisional earnings contribution from continuing operations increased 19% to $4.0 million in 1971 from $3.3 million the previous year. This contribution is before allocation of corporate costs and before extraordinary items and minority interest.



DIVISIONAL SALES *($ millions)*

	1971 $	1971 %	1970 $	1970 %	1969 $	1969 %	1968 $	1968 %	1967 $	1967 %
FOOD	67	46	57	45	52	43	46	44	40	46
CONSUMER GOODS	42	28	37	29	35	29	30	29	24	28
COMMUNICATIONS	15	10	15	12	13	11	12	11	11	13
SHELTER	11	8	11	8	13	11	10	10	8	9
LEISURE	11	8	8	6	8	6	6	6	4	4
TOTAL	146	100	128	100	121	100	104	100	87	100

This table summarizes the five year sales trend of each division, and the divisional contributions to consolidated sales. Operating revenues have been classified with sales for each division where it is applicable.

DIVISIONAL EARNINGS CONTRIBUTION *($ thousands)*

	1971 $	1971 %	1970 $	1970 %	1969 $	1969 %	1968 $	1968 %	1967 $	1967 %
FOOD	1482	37	1365	41	950	23	827	25	621	23
CONSUMER GOODS	947	24	709	21	920	23	962	29	914	34
COMMUNICATIONS	1091	28	1157	35	1080	27	910	28	795	29
SHELTER	80	2	(38)	(1)	609	15	244	7	221	8
LEISURE	360	9	134	4	485	12	347	11	149	6
TOTAL	3960	100	3327	100	4044	100	3290	100	2700	100

This table summarizes the five year trend in earnings contribution of each division, and the divisional contribution to consolidated earnings. These earnings figures represent the earnings contribution before allocation of corporate costs and before extraordinary items and minority interest.

CAPITALIZATION

	1971 $	1971 %	1970 $	1970 %
LONG-TERM DEBT	7,700	15	10,600	22
DEFERRED CREDITS	4,300	9	2,900	6
CONVERTIBLE NOTES	15,000	30	15,000	31
COMMON SHARES	5,800	11	4,800	10
RETAINED EARNINGS	17,900	35	15,400	31
TOTAL	50,700	100	48,700	100

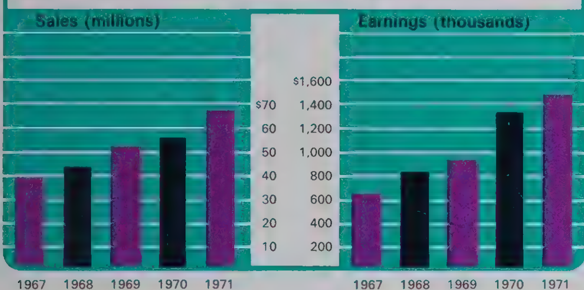
Total capitalization increased to $50.7 million at the end of 1971, up $2.0 million from 1970. Long-term debt of $7.7 million represents 15% of total capitalization at year-end, compared with $10.6 million and 22% respectively at the end of 1970.


Yuban
Sanka
MSI

FOOD

The largest Neonex division achieved record sales and earnings in 1971. Ten new stores are planned for 1972 in major expansion.

	1971		1970		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$67,200	46%	$57,200	45%	+17%
Earnings	1,482	37	1,365	41	+ 9



Receiving an order of 1,400 cases in two minutes at the main computer bank in the Vancouver head-office.

Sales and earnings of the 57 year old Neonex Food Division reached record levels in 1971. Sales were over $67 million, up 17% over the previous year. Earnings were $1,482,000, up 9% as margins narrowed under wage and price pressures.

The Division operates 52 food markets throughout the Province of British Columbia made up of 47 Overwaitea supermarkets and five Prairie Markets food discount outlets. Strategically located, they provide more complete coverage outside the Metro Vancouver market than any other food chain.

During 1971, four new Overwaitea and two Prairie Market outlets were opened. Four of these new stores replaced outgrown facilities and two were established in new communities. In addition, major renovations were undertaken in several locations to upgrade our service to the public.

The Company proposes to continue its expansion program with the opening of ten new stores in 1972 of which five will replace existing smaller markets. Major expansion and renovation will take place in three existing stores.

The Neonex Food Division was the first in Canada to install an electronic ordering system which saves hundreds of hours of ordering time per week and up to four days in the delivery of stock. Orders placed one day are shipped the next to any store in the Province. Orders are recorded onto a tape by sound signals and transmitted by telephone to the main computer bank at head-office in Greater Vancouver. This new ordering technique will substantially improve inventory control and provide much faster delivery service.

In common with other retailing businesses, labour costs are a very important factor and continue to exert pressure on profit margins.

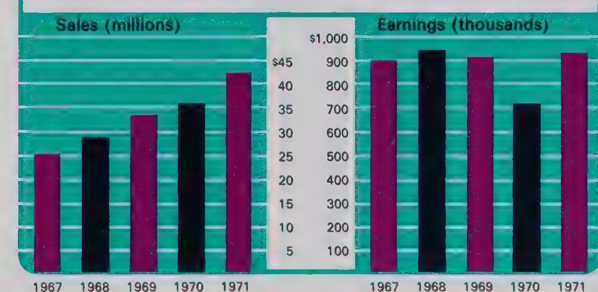
The effective performance and dedication of the Company's employees is an important factor in the success and growth experienced. The management development program continues to provide top calibre people to fill key positions in our expanding food chain.

Neonex was the first food company in Canada to install the compact electronic computer ordering system, shown in use in one of their 52 stores.

CONSUMER GOODS

New outlets in 1971 contributed to record sales and higher earnings. Substantial expansion is planned for 1972.

	1971		1970		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$42,400	28%	$36,900	29%	+15%
Earnings	947	24	709	21	+34



Excellent results were achieved during 1971 by the Consumer Goods Division as earnings rose 34% to $947,000 on a 15% increase in sales to $42 million.

Neonex ANC Distributor Warehouse operations were expanded during the year with the opening of new branches in Calgary, Vancouver and Toronto. At year-end the number of Warehouses reached 12, and already in 1972 new locations have been opened in Hamilton, Lethbridge and Red Deer. We plan to have 20 locations open by the end of the year.

During 1971 Neonex delivered over 2½ million ANC catalogues and publications to Canadian households. The Company, now in its 40th year of operation, is one of the early originators and leaders in catalogue sales, with catalogues mailed twice yearly to nearly one million ANC cardholders.

The ANC catalogue contains over 20,000 merchandise items and brings the concept of distributor warehousing right into the homes of the Company's registered cardholders. The computerized mailing list has been expanded by 25% during the year. With the introduction of the new Canadian postal-coding system it will be possible for the Company to pin-point mailings or catalogue deliveries to cover any specific area or district across Canada.

The Consumer Goods Division continues to stress its internal program of management training and development. The program is augmented by the recruitment of qualified and well-trained staff to meet the demands created by the aggressive branch extension program.

The magazine and music operations showed a substantial increase in business during the year. The Company has firmly established itself in the record and tape distribution field in Western Canada and continued growth in this operation is anticipated. Carnival supplies are distributed throughout Canada and volume rose substantially in 1971.

The Neonex paint company, Northern Paint had the best year in its history in 1971. Sales of the "Norco" brand increased substantially, and good gains were also achieved in the private label sales. Particularly gratifying was the increase in industrial sales, an area in which the Company is accelerating its sales efforts.

Northern Paint manufactures a broad range of oil and latex base paints and wood finishes in its Winnipeg plant and distributes through its own outlets in addition to over 850 private-label dealers in Ontario, Manitoba, Saskatchewan, Alberta and British Columbia.

The Company retains a position in the floorcovering market in the Maritime provinces and showed improved results during the past year.

Neonex plans to substantially increase its ANC Distributor Warehouses in 1972.

Over 20,000 catalogue items of major brand names help stimulate sales.

Neonex issued over 2½ million catalogues to its cardholders in 1971.

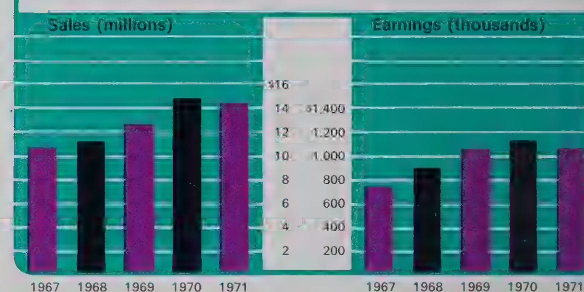
The Consumer Goods Division management training programs permit promotion from within.

The Company recorded a large increase in tape and music sales in 1971.

COMMUNICATIONS

New joint venture should increase sign sales and profits. Economy and strike affect 1971. Helicopters prepare for busy year.

	1971		1970		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$14,500	10%	$15,200	12%	−5%
Earnings	1,091	28	1,157	35	−6



The Neonex Communications Division faced slow economic conditions in the early part of 1971 with a summer long labour strike in Vancouver and restrictive government legislation in the Province of British Columbia. The effect reduced sales and earnings for the year. Fortunately however, a strong fourth quarter performance brought the year's sales to within 5% of the record level achieved in 1970, and profits to within 6% of last year.

The Company recently entered into an equal joint venture with American Sign and Indicator Corporation. This new company, Northern Visual Information Systems Ltd., will couple the technical expertise of the American partner with the sales force, marketing and talents of our own national organization.

American Sign and Indicator Corporation is the originator and the world's largest manufacturer of alternating time and temperature displays which they presently lease to over 3,000 banks and financial houses in the United States. Neon Products has had a close business relationship with the company since its inception 20 years ago.

Since the development of modern, sophisticated solid-state electronic equipment, A S & I has expanded into the total field of visual communications with the manufacture of such devices as computer-controlled message changers, sports timers, scoreboards, and spectacular digital installations. The joint venture will be developing a Canadian market in this field with headquarters in Toronto.

We have continued to upgrade our outdoor sign locations and have increased installations of the three-face Rotovision sign. Store front renovations continue to generate increasing volumes of sign business.

Associated Helicopters Ltd., which was one of the top revenue producers in the Canadian helicopter field in 1971 experienced another record year of activity.

New middle-sized Jet Ranger helicopters are being added to our fleet. This type of helicopter is capable of carrying a pilot and four passengers at speeds up to 130 mph and is well adapted to ambulance work in addition to regular operations.

It is probable that environmental requirements will increase the potential for helicopter support of exploration and development programs in Canada's remote Northern region with its delicately balanced ecology. The nature of the helicopter in being able to transport goods and services across any terrain without damage to the surface should provide a continuously growing market as Canadian exploration and development continues in the far North.

The helicopter company has enlarged its facilities at the Arctic base of Inuvik, N.W.T. and continues to plan for further growth and activity from this supply and communications centre. Surveying, pipelining and drilling activity is expected to increase in 1972. With heavy commitments for the coming season, Neonex is looking forward to another year of full capacity operation.

Hauling and positioning communication and construction equipment on top of the CN Tower in Edmonton.

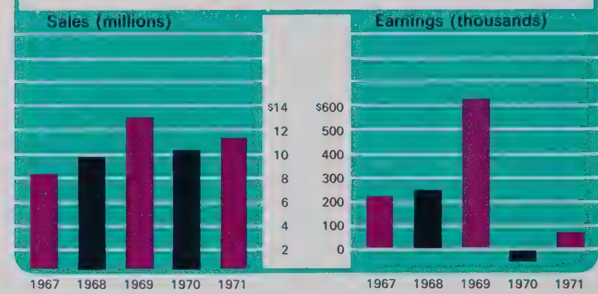
A new growth area is the sophisticated computer operated sign for city and highway use.

An animated sports scoreboard installation in Calgary.

SHELTER

Neonex is in a market where by 1980 business leaders predict 40% of all new houses will be either factory-built or will include factory-built components.

	1971		1970		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$11,100	8%	$10,600	8%	+4%
Earnings	80	2	(38)	(1)	—



Neonex continues to widen its manufactured products with the construction of factory-built housing for commercial and industrial accommodation.

The Neonex Shelter Division recorded sales of $11.1 million during 1971, up 4% over 1970. In the year under review, anticipated government support, both in recognition of new standards for the mobile home industry and the easing of financial rates and transportation restrictions, were not completely forthcoming.

The Company in 1971 took measures to restructure its own retail outlets in Western Canada and to increase the numbers of its independent dealers. A new marketing policy now in force has enlarged the independent dealer network in the Provinces of British Columbia, Alberta, Saskatchewan and Manitoba. Initial sales results, since this step was completed, have proven to be beneficial.

To coordinate its national merchandising and advertising program, and strengthen the Company's image with the consumer, the manufacturing and marketing companies will operate under the name Neonex Housing Industries. The Company's retail outlets will continue to be known by the name United Mobile Homes.

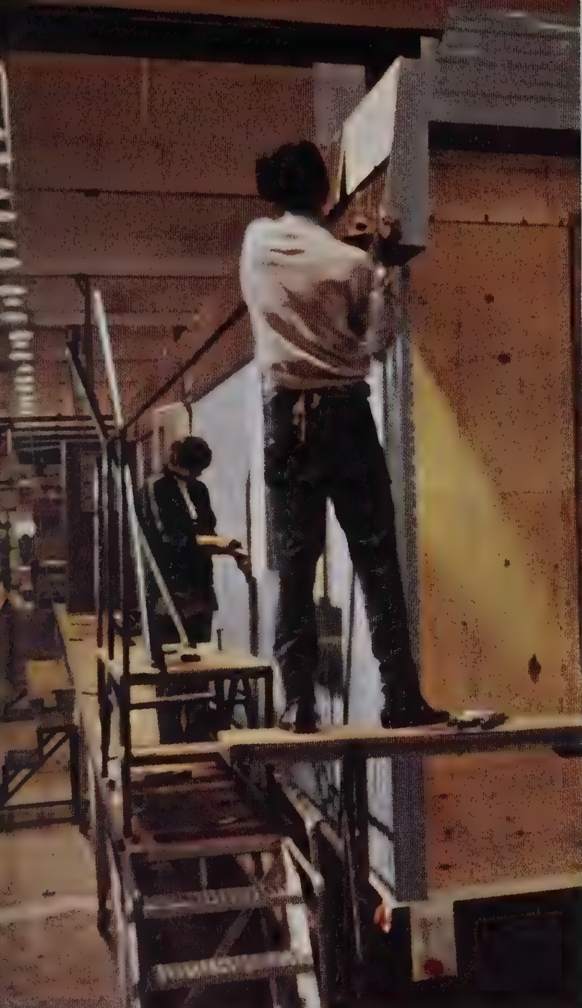
In the latter part of the year the Shelter Division made good progress in the manufacture of the economy line segment of its mobile home market. New methods of construction and assembly at the plant in Calgary have been most successful in reducing manufacturing costs and enabling the Company to be more competitive at the retail level.

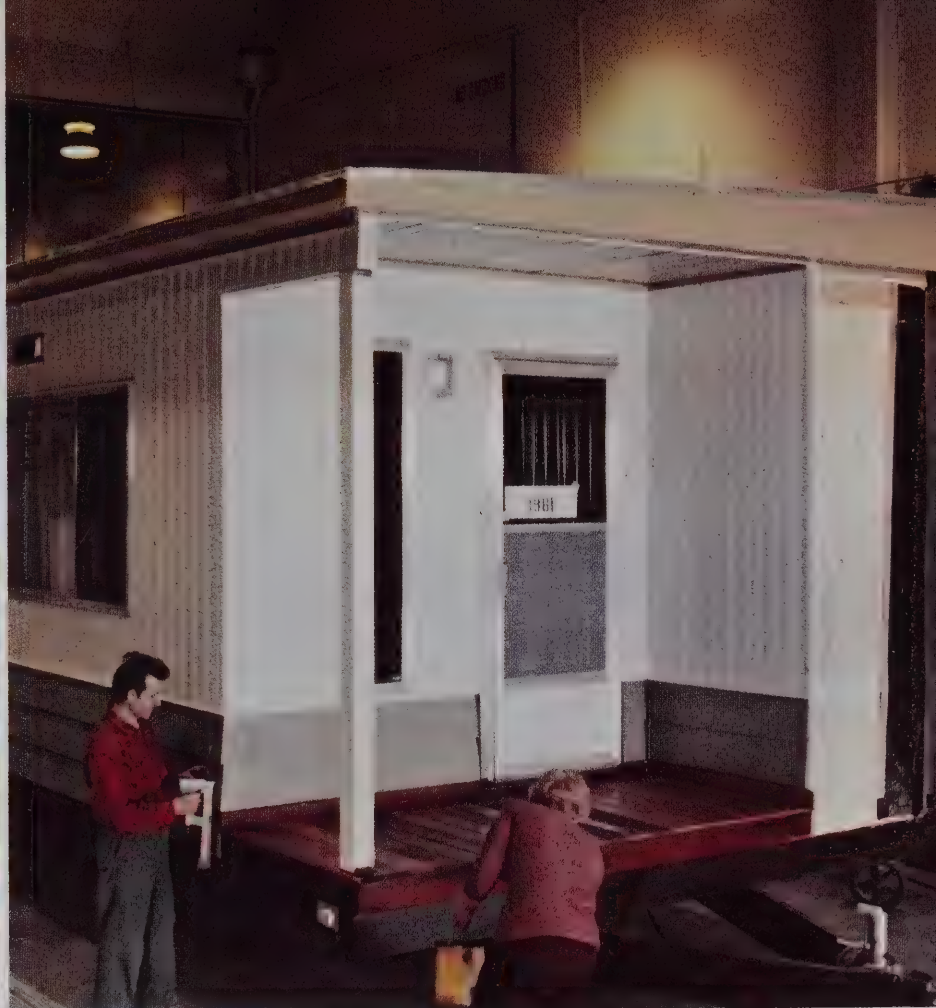
Neonex Housing Industries continues to increase its production output and stimulate business by supplying mobile homes, on a direct and exclusive sales basis, to developers and companies who are involved in the planning and development of mobile home communities.

The concept of factory-built housing, on a practical viable basis, is now beginning to gain in potential in Canada. Business leaders in this field predict that by 1980, 40% of all new houses will be either factory-built or will include factory-built components. With this potential market in mind, the Company is continuing to widen its manufactured products with the construction of factory-built housing units for commercial and industrial requirements.

The Neonex Shelter Division's manufacturing plant, one of the largest of its kind in Canada, has been visited during the past 12 months by trade missions and research delegations from Alaska, Russia and Japan, to study the Company's manufacturing facilities, building expertise and export potential.

The outlook for 1972 appears optimistic with a projected overall increase of 18% for the industry in Canada. This, combined with a reorganization of both the manufacturing and marketing sections of the Company and new regulations by the Provinces of Alberta, Saskatchewan and Manitoba which now permit the highway transportation of 14 foot wide mobile homes, should result in the Division enjoying an increased share of business in 1972.

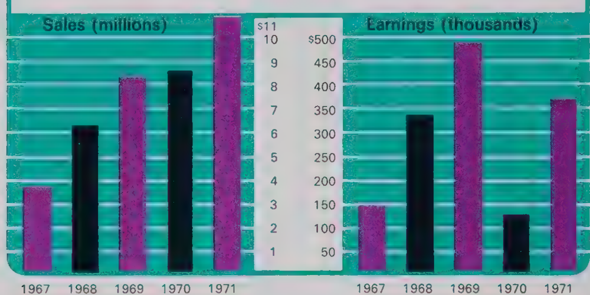




LEISURE

The upswing in personal disposable income continues to increase the sales potential for the Company's leisure and recreational products.

	1971		1970		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$11,000	8%	$8,300	6%	+ 33%
Earnings	360	9	134	4	+169



The Company recently introduced a complete line of "Rustler" truck campers.

More leisure time means more potential customers for our products.

Variety of units produced by the five Neonex manufacturing plants in North America.

Neonex travel trailers range from 14 to 24 feet in length.

Holidaire trailers are now in full production at the Company's new plant in the United States.

During 1971 sales of leisure and recreational vehicles recovered from their slow 1970 performance to re-establish the growth pattern of previous years.

The Neonex Leisure Division sales increased by 33% and net profits rose by 169%.

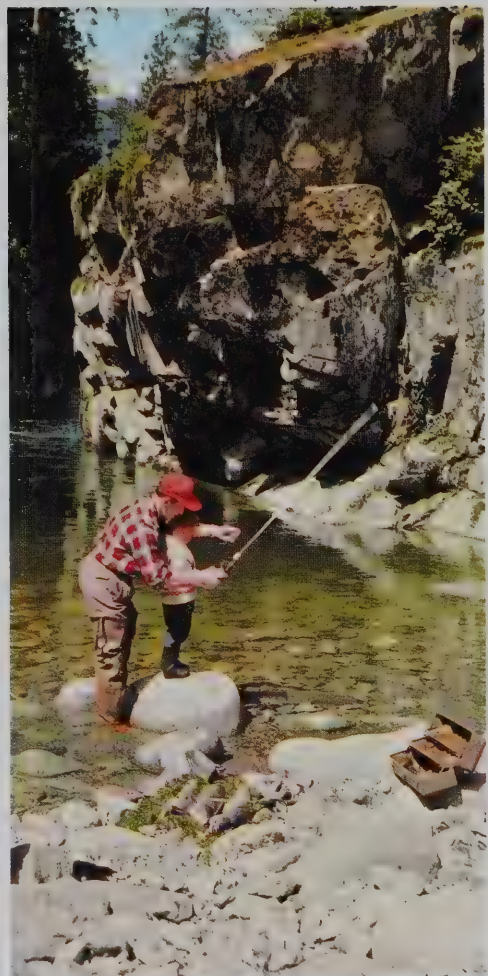
Plans initiated late in 1970 to integrate the operations of Travelaire and Triple-E travel trailers and Otto camping trailers into Neonex Leisure Products were successfully completed. Reorganization of the manufacturing facilities brought travel trailer production closer to its markets, permitting more competitive selling, and in addition, dealer representation was substantially increased in 1971.

Early in the year at Red Deer, Alberta, the Company completed the introduction of a new line of semi-luxury trailers in five models under the trade name "Holidaire." In the Fall of 1971, Neonex also introduced a complete line of "Rustler" truck campers to be distributed largely through truck dealers in Western Canada, with a view to capitalizing on the expanding sale of pickup trucks and campers for recreational purposes.

To facilitate production of the full line of truck campers and camping trailers, Neonex Leisure Products (Western Region) completed a 10,000 square foot plant addition in the Fall, extending its Red Deer facilities to consist of three manufacturing plants, totalling over 100,000 square feet on 22 acres of property.

In February, 1972, the Company acquired premises in McMinnville, Oregon, (35 miles southwest of Portland) to establish a travel trailer manufacturing plant in the United States. A U.S. dealer organization has been created to merchandise the Company's products. In the initial stages of operation in 1972, the facility will produce Holidaire travel trailers to be marketed in the seven Northwestern United States. This new manufacturing location will also make practical the shipment of product into Southern British Columbia on a more competitive basis than previously possible.

It is anticipated market conditions throughout the country during 1972 will continue the favourable trend enjoyed last year.



GLOSSARY OF SELECTED ACCOUNTING TERMS

Explanations of accounting terms used in this Annual Report are not intended to be precise technical definitions. Rather, they are provided to assist readers to achieve a more meaningful understanding of the financial statements and of the terms as they are used in this Report.

ACCRUALS — estimated cost of services already provided but not requiring payment until after the date of the balance sheet.

AMORTIZATION — allocation of costs to accounting periods to which such costs apply.

ANTIDILUTION PROVISIONS — the price to be received for shares issued to retire the convertible notes will reduce if shares are issued to others below that price.

CAPITAL EXPENDITURES — purchases of property, plant and equipment (often called fixed assets).

CONTINGENT LIABILITIES — amounts which the Company may be required to pay depending upon future circumstances.

CONVERTIBLE NOTES — an obligation which may be discharged at the holders' option by conversion into common shares.

CURRENT ASSETS — amounts which will be realized in cash or used in the business within one year.

CURRENT LIABILITIES — amounts which will become payable within one year.

CURRENT MATURITIES — the portion of long term debt payable within one year.

DEFERRED CREDITS — amounts which will be taken into future income as they are earned.

DEFERRED INCOME TAXES — income taxes charged against earnings, which would have been payable if the Company had not claimed exemptions permitted under the Income Tax Act.

DEPRECIATION — the annual charge against earnings designed to apportion cost of property, plant and equipment over the useful life of these assets.

DIMINISHING BALANCE METHOD — a method of providing depreciation which results in successively smaller provisions each year. Higher repair costs are usually required as assets get older. The decreasing depreciation provision combined with increasing repair cost is designed to result in roughly equal annual charges over the asset life.

DISCONTINUED OPERATIONS — businesses previously operated by the Company.

EQUITY — amounts received by the Company from the issue of shares plus profits retained for use in the business.

EXTRAORDINARY ITEMS — profits or losses of significant size which do not arise from the usual business operations of the Company.

FLOATING CHARGE — a mortgage of those assets of the Company not subject to prior claims.

FULLY DILUTED — a calculation of earnings per share which assumes issuance of shares in repayment of the convertible notes outstanding.

GOODWILL — the amount paid to purchase an established business which is in addition to the fair value of the individual assets acquired.

INDEMNITY — the right to recover from a guarantor a specific amount that the Company may be required to pay.

LONG-TERM DEBT — funds borrowed for periods in excess of one year.

POOLING OF INTERESTS — a method of accounting in which the assets and liabilities of an acquired business are recorded at their historic costs.

RECLASSIFICATION — arrangement of previously reported figures on a comparable basis with the presentation adopted in the current year.

RECOURSE — a typical method of financing the sales of mobile homes payable over a number of years. If the purchaser defaults in payment the Company is required to take back the unit.

REDEMPTION — repayment of long-term debt, generally prior to maturity date.

RETURN ON EQUITY — net earnings for a fiscal year divided by the average equity for that year.

VESTED INTERESTS — rights arising prior to normal retirement age whereby an employee may receive a benefit at retirement based on Company contributions to the pension plan as well as his own contributions.

WEIGHTED AVERAGE — the average number of shares outstanding recognizing that shares are issued at varying times during the year.

WORKING CAPITAL — the excess of current assets over current liabilities.

EARNINGS

Summary of revenues and expenses arising from operations during the year.

Neonex International Ltd. *and Subsidiaries*

	YEAR ENDED DECEMBER 31	
	1971	1970
	(thousands)	
Sales and revenue		
Net sales and operating revenue	$146,200	128,200
Other income	700	600
	146,900	128,800
Costs and expenses		
Cost of sales and operating expenses	111,500	98,000
Selling and administrative expenses	25,500	22,000
Depreciation — Note 5	1,500	1,500
Interest on long-term debt and convertible notes	1,600	1,100
Other interest	600	400
	140,700	123,000
Earnings before income taxes	6,200	5,800
Income taxes — Note 7	3,300	3,000
Earnings from continuing operations	2,900	2,800
Earnings from discontinued operations — Note 2	100	(900)
Earnings before extraordinary loss	3,000	1,900
Extraordinary loss — Note 12	200	8,200
Net earnings	$ 2,800	(6,300)
Per share data — Note 13		
Earnings before extraordinary loss	43¢	27¢
Net earnings	40¢	(91¢)
Cash dividends	5¢	5¢

BALANCE SHEET

Summary of assets owned, amounts owing and shareholders' equity.

Neonex International Ltd. *and Subsidiaries*

ASSETS

	DECEMBER 31 1971	1970
	(thousands)	
Current assets		
Cash	$ 2,100	1,300
Investments at cost, approximating quoted value	4,000	1,600
Receivables	9,400	10,400
Inventories — Note 3	22,400	19,900
Prepaid expenses	500	500
Discontinued operations — Note 2		4,600
	38,400	38,300
Investments and other assets		
Receivables	8,100	6,500
Investments — Note 4	3,200	3,400
Deferred charges and intangibles	3,100	2,800
Discontinued operations — Note 2		5,100
	14,400	17,800
Property, plant, and equipment — Note 5	16,000	15,900
	$ 68,800	72,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 31 1971	1970
	(thousands)	
Current liabilities		
Accounts payable and accruals	$ 16,800	13,100
Current maturities of long-term debt	1,300	200
Banks		10,000
	18,100	23,300
Long-term debt — Note 6	7,700	10,600
Deferred credits — Note 7	4,300	2,900
Convertible notes — Note 8	15,000	15,000
Shareholders' equity		
Common shares — Note 9	5,800	4,800
Retained earnings	17,900	15,400
	23,700	20,200
	$ 68,800	72,000

On behalf of the Board

Director

Director

SOURCE AND APPLICATION OF FUNDS

Cash obtained from operating the business and from other sources less amounts spent during the year, representing the change in working capital.

Neonex International Ltd. *and Subsidiaries*

	YEAR ENDED DECEMBER 31	
	1971	1970
	(thousands)	
Source		
Working capital from operations — Note 14	$ 5,200	400
Long-term debt issued	6,200	1,000
Discontinued operations — Note 2	4,800	(800)
Property, plant and equipment, less gain	1,000	1,200
Common shares issued	1,000	
Increase in other deferred credits	900	
Collateral deposit realized		3,000
Assets reclassified as current		1,500
	19,100	6,300
Application		
Property, plant and equipment	2,600	4,300
Long-term debt reduction	9,100	3,800
Non-current receivables	1,600	900
Dividends	300	300
Other	200	100
	13,800	9,400
Working capital		
Increase during year — Note 15	5,300	(3,100)
Opening balance	15,000	18,100
Closing balance	$ 20,300	15,000

RETAINED EARNINGS

Comparative summary of changes in the net earnings of the Company not distributed through dividends but retained for use in operating and expanding the business.

Neonex International Ltd. *and Subsidiaries*

	YEAR ENDED DECEMBER 31	
	1971	1970
	(thousands)	
Opening balance	$ 15,400	22,000
Net earnings for the year	2,800	(6,300)
	18,200	15,700
Cash dividends paid	300	300
Closing balance	$ 17,900	15,400

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Neonex International Ltd. and subsidiaries as of December 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia,
March 8, 1972.

Peat, Marwick, Mitchell & Co.
Chartered Accountants.

NOTES TO FINANCIAL STATEMENTS

Additional information relating to certain amounts included in the financial statements.

Neonex International Ltd. *and Subsidiaries*

1. ACCOUNTING POLICIES

The following summary of major accounting policies is presented to assist in the interpretation of the financial statements and other data presented in this report.

Rounding

All dollar amounts, except statutory information, are presented to the nearest $100,000.

Principles of consolidation

The financial statements include the accounts of the company and all subsidiaries. All material intercompany transactions are eliminated.

Inventories

Inventories of raw materials, work in progress, merchandise and finished goods held for sale are valued at the lower of average laid down cost or estimated realizable value. Manufacturing supplies are included with raw materials.

Leased signs

The financing method is used to account for electric signs which are manufactured and leased, generally for a term of five years. When a sign is installed, the equivalent outright sale value of a similar sign is included in income and recorded as an account receivable. Manufacturing costs of leased signs are included in cost of sales. Related selling expenses are deferred and amortized as income is accrued.

The excess of the aggregate monthly rental payments over the sale value provides for all related expenses and a normal profit, and is credited to income as received. The costs of sign maintenance and of financing lease contracts are charged to earnings as incurred.

Goodwill

When it is determined that any portion of recorded goodwill is no longer of value, it is written off. Goodwill related to acquisitions prior to 1971 and having an original cost of $1,200,000 is classified with deferred charges and intangibles in the balance sheet. No portion of the goodwill has been amortized as management believes that there has been no diminution in value.

Financing costs

Costs of obtaining long-term debt financing are deferred and amortized over the period of the financing.

Foreign currency translation

Convertible notes payable in U.S. currency are recorded at par. The difference between the par value and the Canadian equivalent at the date of issue is included with deferred credits.

Depreciation

Depreciation rates are established to amortize original cost less estimated residual value over the useful life of each asset. Depreciation on the majority of property, plant and equipment is computed on the diminishing balance method.

All material profits or losses on the disposal of property, plant and equipment are included in earnings when they are realized, and the carrying value of such assets is removed from the accounts. The exception to this policy relates to sale and leaseback of significant properties when profits are deferred and amortized over the term of the lease.

Maintenance and repairs

Maintenance and repairs are charged to income as incurred except in the case of helicopters where provision is made for overhaul based on hours of use. Renewals and replacements of a routine nature are charged to earnings while those expenditures which improve or extend the useful life of assets are capitalized.

Income taxes

The company follows tax allocation procedures in recording charges for income taxes. Taxes deferred as the result of claiming as deductions for tax purposes amounts different from those recorded in the accounts are charged against current earnings and are recorded in the balance sheet as deferred income tax credits. These timing differences relate principally to depreciation, sign lease revenue and deferred charges.

When management is virtually certain that a loss which cannot be offset by timing differences will be applied against future taxable income, the estimated tax to be offset is recorded as a reduction of the loss and is included in the balance sheet as a reduction of any existing deferred tax credits. When the loss is used, the tax which would otherwise have been payable is charged against income and the amount previously recorded in the balance sheet is reduced.

Discontinued operations

To provide the most meaningful comparison of the current financial position and operating results with those of prior years, all amounts related to business operations which have been discontinued are reclassified as "Discontinued operations". Net assets of discontinued operations are segregated between current and non-current, thereby not changing working capital previously reported.

Acquisitions

Most of the acquisitions made in recent years involved an exchange of common shares and were accounted for as poolings of interests. Recent acquisitions which did not meet the pooling of interests criteria and those made prior to 1968 were accounted for as purchases.

Under the pooling of interests method of accounting for acquisitions, the carrying values of the assets, liabilities and shareholders' equity of the acquired companies are brought into the consolidated financial statements unchanged. No attempt is made to place a valuation on the shares issued and therefore no goodwill is recorded. The results of operations of acquired businesses are included with those of the parent for each year presented in the statement of earnings.

Under the purchase method of accounting for acquisitions, the excess of the price paid for a business over the fair value of its net assets is recorded as goodwill. The results of operations for purchased businesses are included in consolidated earnings only for the period subsequent to the date of acquisition.

The company did not make any significant acquisitions during 1971.

2. RECLASSIFICATION

The financial statements for the year ended December 31, 1970 have been reclassified where applicable to conform with the presentation used in the current year. The reclassification in the balance sheet for segregation of net assets of discontinued businesses is as follows:

	Current	Non-current
	(thousands)	
Assets	$ 9,300	7,100
Liabilities	4,700	2,000
	$ 4,600	5,100

During the year the company sold substantially all of the shares or business assets of its surface transportation and floorcovering companies and other minor businesses. These businesses were acquired for 1,202,750 shares and were accounted for as poolings of interests. The operating results of these businesses, before allocation of corporate costs, are segregated in the statement of earnings. Depreciation of $300,000 was charged to these earnings prior to disposal; the non-current assets of $5,100,000 at December 31, 1970, less this deduction, are shown as a source of funds. Sales and revenue of these discontinued operations to dates of disposal were $8,100,000 ($31,400,000 for the full year 1970).

3. INVENTORIES

Inventories are valued at lower of cost or net realizable value.

	1971	1970
	(thousands)	
Raw materials	$ 2,700	2,500
Work in progress	1,200	900
Merchandise and finished goods	18,500	16,500
	$22,400	19,900

4. INVESTMENTS

	1971	1970
Maple Leaf Mills Limited 213,100 (225,600 in 1970) common shares, at quoted value at December 31, 1970 (current quoted value $3,400,000)	*(thousands)* $ 3,100	3,300
Other, at lower of cost or estimated realizable value	100	100
	$ 3,200	3,400

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation.

	1971	1970
	(thousands)	
Land and improvements	$ 3,800	3,300
Buildings	9,600	10,200
Machinery and equipment	13,000	12,000
	26,400	25,500
Accumulated depreciation	10,400	9,600
	$16,000	15,900

Depreciation is provided on the diminishing balance method, except for helicopters which are depreciated on the straight line method, at the following rates:

Buildings	3% to 10%
Machinery and equipment	10% to 30%
Helicopters	8%

6. LONG-TERM DEBT

Long-term debt, excluding current maturities, consists of the following:

	1971	1970
	(thousands)	
Term bank loan at prime rate plus 1½%, payable $1,000,000 annually	$ 4,900	
6½% debentures, due 1980, payable $75,000 annually	1,000	1,100
Mortgages at rates from 6½% to 10¼% due at various dates to 1992	1,600	1,800
Conditional sales agreements	200	
Term bank loan		7,700
	$ 7,700	10,600

Bank indebtedness, including the outstanding term loan, is guaranteed by subsidiaries and is secured by the assignment of accounts receivable, a charge on inventories and the hypothecation of certain securities. The company has further agreed to deliver a floating charge demand debenture on its assets.

Long-term debt maturities are approximately $1,400,000 for each of the four years ending December 31, 1976.

7. DEFERRED CREDITS

	1971	1970
	(thousands)	
Income taxes	$ 700	200
Rental deposits and other deferred income	1,600	1,100
Deferred lease costs	900	500
Unrealized foreign exchange	1,100	1,100
	$ 4,300	2,900

Additional deferred taxes of $500,000 ($400,000 in 1970) have been classified with current accounts payable.

Income taxes charged to earnings include deferred taxes of $600,000 (reduction of $1,800,000 in 1970). Because of an anticipated reduction in future tax rates the taxes to be offset by prior year losses have been reduced by $200,000. This amount together with a prior year tax assessment of $100,000 is included in the deferred tax provision for continuing operations.

The unrealized foreign exchange credit represents the difference between the par value of the convertible notes and the Canadian dollar equivalent at the date of issue. The eventual credit to income will depend on the exchange rates which apply when the notes are redeemed.

8. CONVERTIBLE NOTES

The 5¾% Convertible Senior Subordinated Notes due 1984 in the principal amount of U.S. $15,000,000 are payable in annual instalments of U.S. $2,500,000 commencing 1979, subject to prior redemption by the company at a premium of 50%. The notes are convertible into 1,271,860 common shares which number may increase in accordance with antidilution provisions.

The carrying value of this U.S. obligation is recorded at par which approximates the current rate of exchange.

9. COMMON SHARES

Authorized 14,000,000 shares of no par value; outstanding 7,194,748 shares.

	1971		1970	
	Shares	Amount	Shares	Amount
	(thousands)			
Opening balance	6,936	$ 4,800	6,754	$ 4,800
Additional consideration for companies pooled in prior years			182	
For cash under share purchase plan	259	1,000		
Closing balance	7,195	$ 5,800	6,936	$ 4,800

The company has reserved 1,271,860 unissued common shares which may be issued upon conversion of the 5¾% notes.

During the year the company issued 258,500 of its common shares to selected key employees for $1,000,000 cash, paid by a trustee from funds advanced by the company pursuant to the share purchase plan approved by the shareholders. All options outstanding at December 31, 1970 were surrendered as a condition to the exercise of rights under the plan. These shares are held by the trustee and will be released to the employees on payment of the subscription price prior to 1976 which will be applied by the trustee to reduce the amount owing to the company. The amount recoverable from the trustee is included with non-current receivables. There are no outstanding rights under the plan.

10. COMMITMENTS & CONTINGENT LIABILITIES

Rentals for the year ended December 31, 1971 for leased warehouses, retail locations and advertising sites were $1,300,000. Future average annual rentals under these leases are:

1972-1976	$1,200,000	1982-1986	$400,000
1977-1981	700,000	1987-1996	200,000

Finance contracts sold with recourse approximate $13,000,000 and are secured by mobile homes sold by the company.

A subsidiary is joined with other defendants in an action claiming damages of $1,000,000. The company has obtained an indemnity to the extent of any judgment. Legal

counsel have expressed the opinion that the subsidiary's position can be successfully defended.

11. LITIGATION

In 1969 the company acquired 225,600 common shares of Maple Leaf Mills Limited and entered into purchase and option agreements with Norris Grain Company and Leitch Transport Ltd. to acquire an additional 852,911 common shares. Because of a default by Norris Grain Company, the company was not able to complete its contractual commitments.

Leitch Transport Ltd. filed suit in the Supreme Court of Ontario for unspecified damages against the company, Norris Grain Company, Norris Grain Company Limited and Bruce A. Norris. The company does not consider that it has any liability in respect of this action.

The company filed suit in the United States District Court for the Southern District of New York against Norris Grain Company and Bruce A. Norris seeking damages of $32,000,000 resulting from the default referred to above. The defendants denied the allegations of the complaint and counter-claimed seeking approximately $2,000,000 damages for the company's alleged breach of its option agreement and $50,000,000 for alleged defamation. The defendants filed a motion for summary judgment which motion was denied in all respects by an opinion of the Court dated March 6, 1972. United States counsel is of the opinion that the company is not liable to the defendants in any respect and that should any liability to Leitch Transport Ltd. be established, it should be recoverable from the defendants.

12. EXTRAORDINARY LOSS

	1971	1970
	(thousands)	
Loss on liquidation of floorcovering operations, net of deferred tax of $400,000 (1970 — $700,000)	$ 900	1,100
Write-down of investments		6,600
Goodwill written-off		500
	900	8,200
Deduct		
Profit on sale of trucking terminal	500	
Net profit on sale of investments	200	
	700	
	$ 200	8,200

13. EARNINGS PER SHARE

Earnings per share are based on the weighted average number of shares outstanding during the year. Fully diluted earnings per share are not presented as the assumed conversion of the convertible notes has no material effect on earnings per share in the current year.

14. WORKING CAPITAL FROM OPERATIONS

Operations provided the following increases in working capital.

	1971	1970
	(thousands)	
Continuing operations		
Earnings	$ 2,900	2,800
Depreciation	1,500	1,500
Deferred income taxes	900	
Write-down of non-current assets	100	
	5,400	4,300
Discontinued operations		
Earnings	100	(900)
Depreciation	300	700
Deferred income taxes		(1,200)
	400	(1,400)
Extraordinary loss		
Loss	(200)	(8,200)
Deferred income taxes	(400)	(700)
Write-down of non-current assets		6,400
	(600)	(2,500)
	$ 5,200	400

15. CHANGES IN WORKING CAPITAL

	1971	1970
	(thousands)	
Current assets		
Cash	$ 800	1,200
Investments at cost	2,400	(4,500)
Receivables	(1,000)	1,400
Inventories	2,500	500
Prepaid expenses		100
Discontinued operations	(4,600)	(4,700)
	100	(6,000)
Current liabilities		
Accounts payable and accruals	3,700	(200)
Current maturities of long-term debt	1,100	(500)
Banks	(10,000)	3,000
Payable on acquisition of shares		(5,200)
	(5,200)	(2,900)
Increase in working capital	$ 5,300	(3,100)

16. RETIREMENT PLANS

Certain employees participate in contributory retirement plans which provide for benefits on retirement and death. Employees are entitled to vested interests prior to retirement. Employees contribute specified percentages of their salaries and the balance of the cost is paid by the company. The assets of the plans exceed the pension liabilities computed by independent actuaries; the company did not make contributions to fund the plans during 1970 and 1971.

17. STATUTORY INFORMATION

The aggregate remuneration of 15 directors, as directors, was $51,473 (12 directors in 1970, $102,384); the aggregate remuneration of 8 officers, as officers, was $311,010 (6 officers in 1970, $280,000); 5 directors were also officers of the company or a subsidiary and as such received $264,200 (3 directors in 1970, $227,520).

PRINCIPAL OPERATIONS

The five Neonex divisions consist of the following major companies across Canada

FOOD DIVISION

Overwaitea — Supermarkets.

Prairie Markets — Discount Food Markets.

CONSUMER GOODS DIVISION

ANC — Distributor Warehouses; Records and Tapes — distribution and racking.

Provincial News — Magazines and Paperback Books — wholesale distribution.

Bazaar & Novelty — Bingo Equipment and Novelties.

Northern Paint — Paint, Wood Finishes and Decorator Supplies — manufacture, distribution and sale.

Imbrex Atlantic — Distribution of Hard and Soft Floorcoverings.

COMMUNICATIONS DIVISION

Neon Products — Electrical Advertising Signs — manufacture, lease and sale; Store Front Remodelling.

Seaboard Advertising — Poster and Bulletin Outdoor Advertising Displays; Silk Screen Process; Point-of-Sale Display Material.

Associated Helicopters — Helicopter Contracting and Maintenance Services.

LEISURE DIVISION

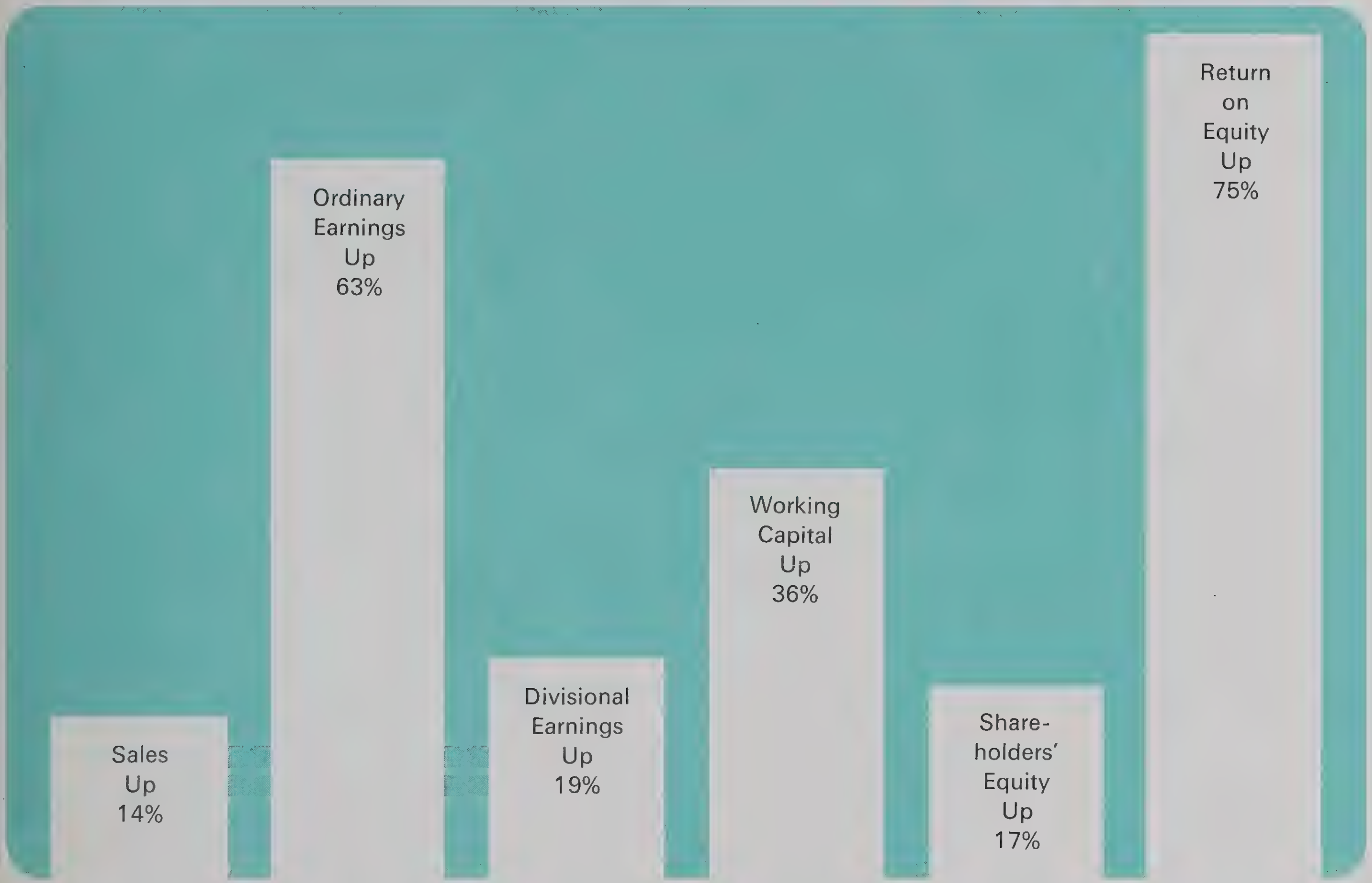
Neonex Leisure Products — Travel Trailers, Truck Campers and Camping Trailers — manufacture, distribution and sale.

SHELTER DIVISION

Neonex Housing Industries—Mobile Homes; Factory-built Housing — manufacture, distribution and sale.

Members of the Neonex Audit Committee discuss the financial statements with Senior Partners of the Company's auditors Peat, Marwick, Mitchell & Co.

1971 WAS A GOOD YEAR



ANNUAL MEETING

The 1972 Annual Meeting of Shareholders of Neonex International Ltd. will be held in Vancouver, British Columbia. The date and time of the meeting will be included in the "Notice of Meeting" to be mailed to Shareholders.

NEONEX INQUIRIES

All inquiries concerning Neonex International Ltd. should be made to Wilfred N. Ray, Director Corporate Communications at corporate office.

"We are firmly committed to serve the consumer markets and to participate in their future growth."

James A. Pattison,
Chairman and President.

NEONEX INTERNATIONAL LTD.
1055 WEST HASTINGS ST., VANCOUVER 1, BRITISH COLUMBIA, CANADA

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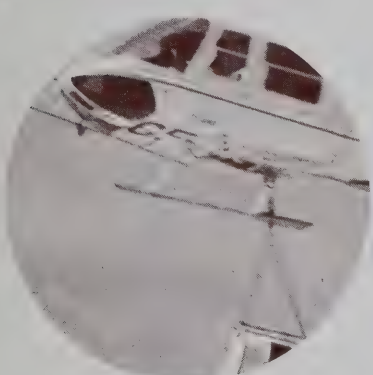
NEONEX INTERNATIONAL INTERIM REPORT



JUNE 30, 1971

To Our Shareholders:

The Company has improved its overall position during the first half of 1971:

- sales are up 15%
- earnings from operations are up 30%
- working capital is up over $5 million and now stands at $20 million.

Operating Results

Sales were $70 million during the first half of 1971, an increase of 15% over the $61 million recorded by the same operations during the first half of 1970. Sales of the discontinued surface transportation and floorcovering operations are excluded from the above figures for each year.

Net earnings from operations were $1,577,000 during the current period, up 30% over the $1,217,000 in 1970. Earnings per share were 23 cents this year compared with 18 cents for the same six months of last year.

The Company also recorded extraordinary profits of $668,000 or 9 cents per share during the first half of 1971, with no corresponding items in the same period last year. Of these profits, $166,000 arose from the sale of investments and $502,000 from the sale of a fixed asset by a discontinued operation.

The net earnings from operations, before extraordinary items, include a profit of $126,000 in 1971 from the discontinued transportation and floorcovering operations, compared with a corresponding loss of $155,000 last year.

Divisional Performance

Sales and earnings of all divisions were generally satisfactory during the first half of 1971. The exception is the Shelter Division where industry overcapacity is substantial and has led to aggressive price competition and reduced earnings.

Sales of the Advertising and Communications Division were down slightly from last year, reflecting a general volume reduction in the sign industry in Canada. This industry condition was accentuated by a

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three-month shutdown at the Division's west coast plant, caused by an industry-wide strike in Vancouver which was settled this month.

The remaining divisions all recorded year-to-year sales growth, with the principal increases having been recorded by the Consumer Goods, Food Services and Leisure Time divisions.

Financial Position

The balance sheet at June 30, 1971 shows significant improvement over the position one year ago.

The working capital of the Company stands at $20.4 million compared with $15.8 million a year ago. The current ratio is 2.1, up from 1.5 in mid 1970.

Canadian bank loans were $3.4 million at June 30, 1971 compared with $12.7 million last year. Since June 30, the Company has retired its current bank debt.

Long-term debt was $9.2 million at June 30, 1971, down from $13.6 million one year ago. Long-term debt at June 30, 1971 included a U.S. $5.8 million term bank loan which was due in April, 1972. Subsequent to June 30, the Company was successful in refinancing this obligation over a six year term through a Canadian chartered bank.

Capital expenditures of present operations amounted to $748,000 during the first half of 1971 compared with $2.6 million expended by these same operations during the first six months of last year.

Disposal of Operations

The Company has now sold for cash its 50% interest in the Bigelow Canada carpet mill and has disposed of substantially all of its floor-covering distribution assets except in the Maritime Provinces. During the second quarter of this year, the Company also sold, primarily for cash, its surface transportation subsidiaries.

Maple Leaf Mills

The Company has now filed suit for damages of $32 million against the Norris Grain Company interests in respect of the aborted Maple Leaf Mills acquisition. While Neonex may still become involved in litigation with the Leitch Transport interests, U.S. legal counsel have expressed the opinion that should a court determine that the Company has any liability, such liability should then be recoverable against the Norris interests.

Outlook

Neonex will continue to pursue its primary objective to intensify its participation in consumer markets where we are convinced that significant opportunity exists for earnings and growth.

James A. Pattison,
Chairman and President.

August 23, 1971.

Neonex International Ltd.
and Subsidiaries

STATEMENT OF EARNINGS

	Six Months Ended June 30	
	1971	1970
	(thousands of dollars)	
Net sales	$69,663	$60,662
Earnings before income taxes	2,897	2,824
Provision for income taxes	1,446	1,452
Earnings from continuing operations	1,451	1,372
Earnings from discontinued operations	126	(155)
Net earnings before extraordinary items	1,577	1,217
Extraordinary items		
Continuing operations	166	
Discontinued operations	502	
Net earnings	$ 2,245	$ 1,217
Earnings per share (cents)		
Earnings before extraordinary items	23	18
Net earnings	32	18
Fully diluted earnings per share (cents)		
Earnings before extraordinary items	22	17
Net earnings	30	17

NOTES TO FINANCIAL STATEMENTS

In the financial statements at June 30, 1971, the results and amounts of discontinued operations have been segregated in order to present separately the results and amounts of continuing operations. The financial statements at June 30, 1970 have been reclassified where applicable to conform with the presentation used in the current year.

These statements are subject to audit and year-end adjustment.

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SOURCE AND APPLICATION OF FUNDS

	Six Months Ended June 30	
	1971	1970
Source of funds	(thousands of dollars)	
Operations		
Net earnings	$ 2,245	$ 1,217
Depreciation and deferred charges amortized	857	700
Deferred income tax	108	(451)
	3,210	1,466
Sale proceeds of investments, less gain	181	—
Sale proceeds of property, plant and equipment, less gain	132	358
Long-term debt issued	295	575
Decrease (increase) in non-current accounts of discontinued operations, net	5,057	(551)
	8,875	1,848
Application of funds		
Property, plant and equipment	748	2,584
Investments	7	723
Long-term debt reduction	1,717	343*
Lease contracts and other	252	(11)
Dividends paid	173	173
Deferred charges and intangibles	523	179
Other	39	106
	3,459	4,097
Working capital		
Increase (decrease) during period	5,416	(2,249)
Opening balance	14,965	18,076
Closing balance	$20,381	$15,827

* The application of funds to reduce long-term debt, as presented in the 1970 interim report, included $2,147,000 estimated to have been payable under a proposed refinancing plan. When this refinancing was completed no such current payment was required; accordingly, the application has been reduced in the above statement.

Neonex International Ltd.
and Subsidiaries

BALANCE SHEET

	June 30, 1971 (thousands of dollars)
Assets	
Current assets	
Cash	$ 674
Short-term investments, at cost approximating market	86
Accounts receivable	12,400
Inventories, at lower of cost or net realizable value	21,667
Prepaid expenses	727
Assets of discontinued operations held for disposal (principally accounts receivable), at estimated realizable value	3,589
	39,143
Investments and other assets	
Lease contracts and other	6,723
Investments	3,262
Deferred charges and intangibles	3,324
	13,309
Property, plant and equipment, at cost less accumulated depreciation	15,710
	$68,162
Liabilities and Shareholders' Equity	
Current liabilities	
Banks	$ 3,405
Accounts payable and accruals	13,717
Income taxes	1,640
	18,762
Long-term debt	9,178
Deferred credits	1,842
Convertible notes	16,085
Shareholders' equity	
Common shares	4,840
Retained earnings	17,455
	22,295
	$68,162

See Notes to Financial Statements

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Board of Directors

Michael D. Dingman,
President, The Equity Corporation,
New York, New York.

Harry B. Dunbar, C.A.
Assistant to the Chairman,
Neonex International Ltd.,
Vancouver, British Columbia.

Russell A. Dunn,
President, Eurocan Pulp and Paper Co. Ltd.,
Vancouver, British Columbia.

M. Donald Easton,
Partner,
Harper, Gilmour, Grey & Company,
Vancouver, B.C.

Lawrence B. Eberhardt,
Vice-President,
Neonex International Ltd.,
Vancouver, British Columbia.

Robert W. Halliday,
Chairman of the Board,
U.S. Natural Resources, Inc.,
Boise, Idaho.

Mark N. Kaplan,
Senior Partner, Burnham and Co.,
New York, New York.

C. Stuart Mitton,
President, Overwaitea Limited,
Burnaby, British Columbia.

James A. Pattison,
Chairman of the Board,
President and Chief Executive Officer,
Neonex International Ltd.,
Vancouver, British Columbia.

John M. Thompson,
Chairman of the Board,
Crush International Ltd.,
Toronto, Ontario.

Executive Offices

Sixteenth Floor,
1055 West Hastings Street,
Vancouver 1, British Columbia,
Telephone 688-6764, Area Code 604,
Telex 04-507616.

Stock Listings

Toronto and Vancouver
Stock Exchanges,
Over-the-Counter Market,
New York.

Neonex International is a major industrial corporation engaged in the manufacture and sale of consumer goods and in services industries.

NEONEX INTERNATIONAL LTD.

1055 WEST HASTINGS ST., VANCOUVER 1, BRITISH COLUMBIA, CANADA

Additional copies of this Interim Report are available by writing to:
Wilfred N. Ray,
Corporate Communications Department.

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